



Management of Surplus Property Follow-Up Review:

The State Has Made Limited Progress, but Fundamental
Concerns Remain

March 2009 Letter Report 2008-502



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B pg 3

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2008-502

The Governor of California
President pro Tempore of the Senate
Speaker of the Assembly
State Capitol
Sacramento, California 95814

Dear Governor and Legislative Leaders:

This letter report presents the results of a follow-up review the Bureau of State Audits (bureau) conducted concerning the efforts by the Department of General Services (General Services) and the Department of Transportation (Caltrans) to implement recommendations from an earlier audit report that we issued in January 2001. The bureau's report titled *The State's Real Property Assets: The State Has Identified Surplus Real Property, but Some of Its Property Management Processes Are Ineffective* (2000-117) focuses on state agencies' handling of their excess real estate. As the result of a hearing held by the Senate Governmental Organization Committee in May 2008, we decided to evaluate state agencies' actions that responded to the original audit report, concentrating specifically on the State's management of surplus property.

Although the Legislature proposed many reforms related to the 2001 surplus property report's recommendations, it enacted no major changes. Assembly Bill 957 (Chapter 59, Statutes of 2007), which requires Caltrans to report annually to General Services on its real property, including its excess lands, has become law since we issued our report on the State's surplus property. Although this change increases the breadth of the property information General Services receives, it does not give General Services, or any other state entity, authority to scrutinize agencies' property-retention decisions. This was one of the fundamental concerns raised by our 2001 audit and the 2004 California Performance Review, an effort initiated by the governor to identify inefficiencies in state government. Because there is no entity with broad oversight of state property, the State continues to lack assurance that its properties are being carefully evaluated to identify when they are unused or underused so that such properties can either be sold to generate revenue or be put to better use.

We noted that although General Services has implemented some of the 2001 report's recommendations, it has not fully implemented others. Specifically, General Services has taken the necessary steps to fill the vacant positions that we suggested should be filled and has submitted more comprehensive reports to the Legislature. However, these annual reports have not been submitted any more promptly in recent years than was the case when we originally reported on this issue in 2001, and General Services has not performed the planned studies for regional office space to ensure that it provides an adequate strategy for consolidating the State's office space.

In addition, we learned that although Caltrans has implemented or attempted to implement most of our recommendations, there are still questions as to the reliability of some fields within its database of surplus property. Specifically, Caltrans has improved its performance by increasing the number of surplus properties it has sold and by promptly conducting its annual reviews of real property holdings. However, our testing revealed errors within one of its databases that may affect the accuracy of the reports that Caltrans submits to General Services.

Background

In 2000 the Joint Legislative Audit Committee asked the bureau to review the amount of state-owned real estate (property) in high-cost counties that was surplus and the adequacy of state agencies' management of such property.

In January 2001 we issued a report and concluded that the State had many surplus properties in high-cost areas; however, questions surrounded many of these properties' availability for sale. At the time, General Services—the department generally responsible for disposing of the State's properties identified as excess by state agencies—could take years to dispose of surplus property listed in its inventory system because state agencies would often declare properties as excess years before the agencies were ready to vacate them. Consequently, many of the properties listed in the inventory system were not available for immediate disposal. In addition, the unit within General Services responsible for selling surplus property experienced staffing shortages. Our audit report also concluded that Caltrans, which obtains approval from the California Transportation Commission to dispose of its properties, could take years to dispose of its surplus property. Caltrans' delays were partly due to its failing to place a high priority on this task.

Delays and inefficiencies in disposing of surplus property hinder the State's realization of the following benefits of selling these properties:

- Unless otherwise specified, the State uses the proceeds from the sale of surplus property to pay the principal and interest on bonds issued according to the Economic Recovery Bond Act of 2004. Once the State has fully paid the principal and interest on those bonds, it will deposit the proceeds into the Special Fund for Economic Uncertainties, or any successor fund.
- After it sells surplus properties, the State no longer incurs regular maintenance costs on those properties, and it eliminates the legal liability associated with such property.
- Finally, by selling properties that it no longer needs, the State allows other entities to put these properties to good use. Such uses could include commercial or residential development that broaden the tax base and thus benefit both the State and local governments.

In August 2004 the California Performance Review—a group of 275 volunteers assembled by the governor—issued a report suggesting numerous changes to the operation and organization of state government. Among the subjects touched on by the report was the sale of state-owned surplus property. Similar to our 2001 audit report, the California Performance Review's report concluded that the State's laws and processes for identifying and selling underused and surplus properties are ineffective,

resulting in delayed and below-market sales of such properties. The California Performance Review's report recommended that the State's laws be amended and its processes streamlined to increase property sales and revenue to the State.

In a May 2008 hearing of the Senate Governmental Organization Committee (committee), the committee expressed interest in knowing the status of the State's processes regarding disposal of surplus property. For that reason, the bureau decided to conduct a follow-up review of actions that responded to recommendations published in the 2001 audit report. Based on the authority granted to the bureau (California Government Code, Title 2, Chapter 6.5), at intervals prescribed by the state auditor, each state agency that we audit is to report to us on its progress in implementing our recommendations. Under that same authority, the bureau can conduct follow-up reviews of audits when resources are available and when the bureau determines that it is prudent to do so.

The Legislature Has Not Empowered an Entity to Oversee the Management of the State's Real Property

Although members of the Legislature have proposed various bills that would have implemented, at least in part, our earlier recommendations and helped to improve the ways in which the State tracks and disposes of surplus property, these bills never became law. Consequently, no state entity has authority to oversee the property-retention decisions of individual agencies.

In our 2001 report we looked at the approaches that other government entities took when they faced similar dilemmas in managing the disposal of state-owned real property. Among the approaches taken by these entities were centralizing the administration of real property and giving agencies financial incentives for disposing of surplus property. In addition, our report recommended that the Legislature achieve consistency and quality control over the review of the State's real property holdings by empowering an existing agency or creating a new commission or authority. This entity would be responsible for establishing standards for the frequency and content of property reviews and land management plans, for monitoring agencies' compliance with the standards, and for scrutinizing agencies' property-retention decisions. Alternatively, this entity could be responsible for periodically conducting reviews of the State's property retention or disposal. Moreover, as the text box shows, the California Performance Review had additional recommendations regarding the sale of surplus property.

The California Performance Review's Recommendations for Improving the Sale of Surplus Property

- Empower and fund an agency to declare state assets surplus and to direct their sale
- Allow this agency to enter into master service contracts for consulting services required to study and sell surplus property.
- Statutorily require the sale of state property at fair market value
- Eliminate the right of first refusal for surplus property for any entity other than a state agency.

Source: California Performance Review, *Tapping Surplus Property Assets*, August 2004.

B pg 6

**Bills Introduced by the Legislature Related
to Our Original Report's Recommendations
but Did Not Become Law**

2001–02 Session

Senate Bill 1600: Would have required General Services to develop standards for the inventory of state property, to monitor state agencies' compliance with these standards, to conduct periodic program reviews, and to make recommendations to the Legislature—Held in Senate Appropriations Committee.

2003–04 Session

Senate Bill 1750: Would have established a 12-member independent commission in state government to review and recommend state property for divestiture—Failed passage in Senate Committee on Governmental Organization

Senate Bill 1755: Would have created incentives for state agencies to encourage the identification of surplus and underused real property—Failed passage in Senate Committee on Governmental Organization

2005–06 Session

Senate Bill 99: Would have established the Commission on Asset Review and Divestiture to review biennially the inventory of all real property held by the State—Held in Senate Appropriations Committee

Source: Analysis by Bureau of State Audits' legal counsel.

Our 2001 audit report recommended that if the Legislature did not wish to establish such an oversight entity, it should consider replacing the current requirement for annual property reviews with a requirement for less frequent but more comprehensive reviews. In addition, we recommended that the Legislature consider providing incentives to state agencies to encourage them to identify surplus and underused property and free up such real estate for better uses.

During our follow-up review, we examined legislative history to determine the extent to which the Legislature implemented the recommendations described previously, and found a number of bills related to our recommendations that were introduced but not enacted (see text box). In the 2007–08 session, the Legislature did enact Assembly Bill 957 (Chapter 59, Statutes of 2007), which requires Caltrans to report to General Services annually about all of its property holdings, including its excess lands. Until legislative changes empower a designated entity to oversee the identification of surplus property or to add incentives for agencies to report surplus property, the State will continue to lack assurance that state properties are being carefully evaluated to identify revenue opportunities.

**Agencies Receive No Direct Oversight of Their
Property-Retention Decisions**

Although General Services has developed a reporting process for state agencies to identify annually their excess property, it does not have the authority to enforce reporting requirements or to question agencies' property-retention decisions. Every year General Services asks each state agency to submit information on properties that the agency identifies as excess (annual inquiry). General Services compiles this information and notifies all state agencies about the availability of the reported excess properties. General Services' policy allows state agencies 60 days to notify General Services about their interest in a property; otherwise, the property may not be available once the Legislature has approved it as surplus. At approximately the same time, the Legislature is presented an annual surplus property bill, which lists the excess properties that state agencies reported to General Services.

If no state agency expresses interest, and if the Legislature has declared that a property is surplus, General Services posts a notice of the availability of surplus property on its Internet Web site. Local government agencies and nonprofit affordable housing sponsors then have 90 days to notify General Services of their interest. This 90-day window of opportunity is the first right of refusal that the 2004 California Performance Review recommended be eliminated to expedite the disposal of surplus property. If no local agency expresses interest, General Services proceeds with the disposition of the surplus property on the open market. If a local agency expresses interest, and General Services selects the agency according to the priorities ordered by state law—affordable housing being the top priority—the local agency has 60 days to execute a sales agreement and another 60 days to complete the sale and transfer of title.

According to General Services, most of the state agencies that participated in the 2008 annual inquiry reported that they had no properties identified as excess, and roughly 11 percent of state agencies did not respond to the inquiry.¹ We decided to examine the identification processes used by the largest land-holding agencies, as shown in Table 1, to better understand how state agencies determine whether a property is excess. General Services and Caltrans were already part of our follow-up review, and we

Table 1
Summary of State Agencies' Real Property

AGENCY NAME	TOTAL SITES	PERCENT OF TOTAL SITES	TOTAL ACRES
Department of Transportation	548	23.4%	6,216
Department of Fish and Game	360	15.4	599,628
Department of Parks and Recreation	278	11.9	1,247,593
Department of Forestry and Fire Protection	270	11.5	75,020
Department of California Highway Patrol	109	4.7	627
Department of Motor Vehicles	96	4.1	242
Santa Monica Mountains Conservancy	82	3.5	8,674
State Lands Commission	79	3.4	4,491,141
Department of General Services	79	3.4	2,001
Military Department	78	3.3	5,926
32 other departments with less than 50 sites	362	15.4	292,745
Totals	2,341	100.0%	6,729,813

Source: Department of General Services' *Monthly Summary Report* for September 2008.

* This number was rounded down so that the total percentages in this column totaled 100.

¹ The assistant chief of General Services' Asset Management Branch indicated that General Services does not usually make follow-up contact with agencies that have not responded to its annual inquiry.

B pg 8

added the Department of Fish and Game (Fish and Game) and the Department of Parks and Recreation (Parks and Recreation). We generally selected these agencies based on the number of sites that each of them owns. Properties owned by these four departments account for 54 percent of the total sites owned by the State. We describe Caltrans' process for identifying surplus properties in a later section.

Fish and Game is one of the state agencies that did not respond to General Services' 2008 annual inquiry about excess properties.² As Table 1 indicates, Fish and Game owns and maintains 360 sites, which account for 15 percent of the State's total sites. In our 2001 audit report, we found that many state agencies—Fish and Game included—failed to develop adequate procedures for identifying excess property. Since that time, Fish and Game has developed written procedures for the identification and disposal of excess lands. The program manager of the department's Lands Program explained that Fish and Game purchases and manages land for conservation purposes and intends to maintain the land as open space in perpetuity. As a result, Fish and Game rarely has property declared surplus because the property generally fulfills the intent for which the department purchased the land.

"Although the department has disposed of a handful of properties through General Services, there has been a general reluctance to use this procedure because the resulting revenues are not returned to the Department land acquisition program."

Source: Department of Fish and Game's *Land Conversion Policy, Criteria and Procedures*, February 2006.

When staff at Fish and Game believe that a property is no longer appropriate for the department to continue managing, the regional staff submits a land conversion evaluation to its headquarters. Administrators review the evaluation and then generally assign the property to the Wildlife Conservation Board for disposal. (See the text box for a statement about Fish and Game's use of General Services' property disposal process.) Fish and Game might identify property as excess if the land cannot reasonably

be maintained as natural open space because of residential or commercial development that surrounds the property, thus requiring regular maintenance and management for safety reasons, or if the original purpose for conserving the property pertains to the protection of a habitat that is no longer necessary. In some cases, even if a property is identified as excess, it can carry restrictions that require Fish and Game to maintain the site as a conservation area.

² Fish and Game told us that it had no record of a request from General Services for 2008 surplus property information, and it added that it had no surplus properties identified for disposal in 2008.

Additionally, restrictions limit how the State can use proceeds from sales conducted through the Wildlife Conservation Board (board), which is Fish and Game's preferred method of disposing of surplus properties. State law generally requires that these proceeds go to the Wildlife Restoration Fund, which the State can use only for a board purpose, such as the purchase of additional land. Thus, the sale or exchange of Fish and Game property usually benefits Fish and Game programs, and the State cannot use such sales to make payments on the State's economic recovery bonds.

Parks and Recreation reported to General Services in 2008 that none of its 278 sites, which represent almost 12 percent of the sites owned by the State, was excess. Although Parks and Recreation indicated that, like Fish and Game, it holds property for the purpose of conserving open space, it does not have any established criteria to define or identify excess property. The chief of the Acquisition and Real Property Services Division (division) indicated that the division forwards General Services' annual inquiry to its district superintendents and sets a deadline for their response; however, the division does not track the districts' responses. In the event that Parks and Recreation does not receive a response from a district, then it assumes that the district received the inquiry and that it had no excess property to report. Further, the specific criteria for identifying excess property are left to the discretion of the districts because Parks and Recreation only has guidelines for the acquisition of land but not for its disposal.

To understand how they evaluate their properties, we interviewed two Parks and Recreation districts. The more detailed of the two responses indicated that the district's evaluation of its properties includes a discussion of the following issues:

- How well does a property serve Parks and Recreation's overall mission?
- What are the maintenance costs of a property in relation to its benefit to the statewide park system or to a local community?
- Has the purpose or use of the land changed since the State originally purchased the site?
- Could an entity other than Parks and Recreation better use or maintain the property?

Although these questions appear appropriate, the department cannot be sure under its current process that its districts are carrying out this sort of evaluation rigorously or regularly. The chief of the division stated that since 2006, Parks and Recreation has declared only two of its properties surplus—one property

was transferred to a county and the other was sold. The division chief went on to explain that the districts have little incentive to dispose of property because the State often purchased the land with bond money originally, and therefore any sale proceeds would go into the fund created by the bonds or towards paying off the bonds themselves.

In addition to receiving information about other agencies' properties, General Services must manage 79 of its own properties. According to the assistant chief of General Services' Asset Management Branch (branch), branch staff deal with most of General Services' properties on a regular basis. However, General Services does not have specific written procedures for the identification of its surplus property. General Services explained that it does not have a specific document outlining procedures for these reviews since they are performed in conjunction with several other activities, including the maintenance of portfolio binders on each department property, regular infrastructure studies that examine the condition of department property, and administration of the master plan for state-owned land surrounding the State Capitol.

Although General Services asserts that it continually reviews the use of its own properties, the assistant chief of the branch stated that it "cannot speculate as to the amount of diligence that agencies and departments undertake each year to identify property that may be excess to their foreseeable program needs." This lack of knowledge exists because, as we have stated earlier, neither General Services nor any other state entity has the responsibility for overseeing agencies' property-retention decisions. Because it does not have an oversight entity with a broad view of statewide property needs, the State risks holding onto properties that may serve an individual agency's purposes but that could have a better use.

Complications Related to Environmental Requirements Have Lowered the Volume of Surplus Properties That General Services Has Been Able to Sell in Recent Years

General Services' ability to get excess properties declared surplus by the Legislature was hindered in recent years by a disagreement between the Legislature and the administration regarding the removal of a statutory exemption for the State's surplus properties from the requirements of the California Environmental Quality Act (CEQA). However, at least for now this disagreement has been resolved with the passage of a bill (ABX2 8) in February 2009 that places within state law an ongoing CEQA exemption for all properties declared surplus by the Legislature.

A General Services' official stated that the department cannot speculate as to the amount of diligence that agencies and departments undertake each year to identify property that may be excess to their foreseeable program needs.

General Services stated that as of September 2008, only seven surplus properties were pending disposition because of its inability to get an annual surplus property bill passed. According to the chief of General Services' branch (branch chief), the State had not enacted an annual surplus property bill since the 2004 legislative session due to a disagreement between the Legislature and the administration about the removal of a statutory environmental exemption for General Services. Over the past few years, the Legislature has removed or not included a provision in each annual surplus property bill that exempts General Services from the requirements of CEQA. Consequently, these surplus property bills have not survived the legislative process, or in one instance the governor vetoed the bill after passage.

In his veto message for one of the amended surplus property bills, the governor explained that to comply with the CEQA requirements, General Services would have to initiate a CEQA process for each of the surplus properties that it sells. The governor added that in the past, whoever purchased the properties and wanted to develop them was responsible for complying with the CEQA requirements. This freed the State from the time and the costs of performing this process. Opponents of the CEQA exemptions for the State's surplus properties believe that some state property disposals could have significant environmental effects, such as the eventual development of land containing important habitats, and that these disposals need greater analysis under CEQA so that any significant environmental impacts can be identified, disclosed to the public, and mitigated.

The most recent annual surplus property bill (SB 1673) included a list of nine parcels that the state agencies identified as excess to their needs. According to a legislative analysis, these nine properties have a total estimated value of \$12 million. The bill, however, was not enacted, so disposition of these nine properties stalled until the governor signed a budget trailer bill (AB 2026) that contained modified CEQA exemption language. Although General Services was able to obtain approval for the disposal of these nine properties by using AB 2026, the modified CEQA language applied only to those properties and not to the sale of any surplus property in the future.

A more permanent solution to the CEQA issue came in February 2009 when the governor signed ABX2 8 into law that amends the Government Code to include a provision that essentially exempts the sale of the State's surplus property from the requirements of CEQA. Unless this provision is eliminated or substantially modified, the annual surplus property bill need not include further provisions regarding the CEQA exemption, and thus the yearly controversy regarding this matter would appear to be resolved.

Over the past few years, surplus property bills not exempting General Services from CEQA have either not survived the legislative process or have been vetoed by the governor after passage. However, a new law would appear to resolve this controversy.

B pg 12

General Services Has Not Fully Implemented Recommendations From Our 2001 Report

General Services has made some efforts to respond to our 2001 recommendations that it take the necessary steps to fill certain vacant positions and to submit to the Legislature a more detailed surplus property report. However, it has not submitted the report in a more timely manner or performed regional facilities plans as often as specified by its policies. Finally, General Services confirms that it does not regularly update its database with surplus property information because of the low volume of surplus properties.

General Services Has Fully Staffed Its Asset Enhancement and Surplus Sales Unit

General Services, which in the past lacked the staff who could help dispose of surplus property promptly, now believes that it has sufficient staff in its Asset Enhancement and Surplus Sales Unit (Surplus Sales). In the bureau's January 2001 audit report, we explained that General Services did not always maintain adequate staffing in the unit primarily responsible for selling surplus property. In addition, General Services did not always promptly assign surplus properties to staff for disposal. To speed the disposition of its surplus property, we recommended that General Services take the necessary steps to fill its vacant positions and promptly assign surplus properties to staff for disposal.

In its one-year status report in January 2002, General Services stated that its "current operating practices ensure that prompt actions are taken to fill any vacancies that occur in the Surplus Sales Unit." Surplus Sales is responsible for selling, leasing, and exchanging surplus properties. To assess whether Surplus Sales has fully staffed its unit, we reviewed the unit's organization charts for the past several years. As of July 2008 Surplus Sales had two of its four real estate officer positions vacant. These two vacancies were filled in July and August, and Surplus Sales was fully staffed as of October 2008. Although it took General Services more than six months to fill some Surplus Sales positions in the past year, it appears that these vacancies did not adversely affect Surplus Sales because of the low volume of surplus properties that were available for sale due to the delays related to CEQA described earlier.

Although it took more than six months to fill some Surplus Sales positions in the past year, it did not adversely affect sales because of the low volume of surplus properties available for sale due to CEQA-related delays.

*Recent General Services' Reports to the Legislature Are More Detailed
but Not Any More Timely Than They Were in the Past*

General Services' annual reports to the Legislature about surplus properties include more detailed information than they did before our 2001 audit, but these reports are not any more timely. In our previous audit, we found that General Services did not promptly submit to the Legislature its annual report on surplus properties. In addition, we determined that the annual report did not provide detailed information about delays in selling several properties. To improve the value of annual reports to the Legislature regarding its surplus property inventory system, we recommended that General Services ensure that it submits these reports promptly and that it consider including additional specific information on the status of surplus property.

General Services has included some additional detail about the status of surplus properties in reports that followed our original audit, but it has not met its goals for when it wanted to submit these reports. Although there is no legislatively defined deadline for the report, General Services appears to have internally established February as a target date for submitting this report to the Legislature. General Services stated in its six-month response to our original audit that its goal was to submit its 2001 annual report on surplus property to the Legislature by February 2001 but then added that it was not able to meet this goal.³ In its one-year response, General Services stated that it would provide its 2002 annual report to its own executive management by February 2002 for subsequent submission to the Legislature. However, General Services did not submit this report to the Legislature until November 2002. Similarly, its 2003 report was not submitted to the Legislature until October 2003. Between 2004 and 2007, the Legislature imposed a moratorium on most state agencies' reports because of a reduction in state resources. This moratorium included the surplus property reports. Therefore, General Services submitted no reports until 2008, when the moratorium expired. General Services submitted its 2008 report in July—five months later than the February goal internally established for previous years' reports.

The branch chief stated that the department's focus for the 2008 report to the Legislature was to include all relevant information from the past five years and that General Services did not focus on implementing the recommendations from our 2001 audit report. However, he also stated that in its 2009 report to the Legislature, General Services plans to implement the bureau's recommendations

³ Although the title of General Services' annual reports refers to the year in which the report was submitted, the reports are an update on the activities occurring in the prior calendar year. For example, the 2001 annual report presents surplus-property information up to December 31, 2000.

B pg 14

that the department submit the report in a more timely manner and explain in detail the status of all surplus properties that are pending disposition. General Services indicated that, although it does not know at this time when it will issue the 2009 report, a draft of the report is currently under internal review.

General Services Has Not Completed All Required Regional Plans

Because General Services has not prepared or updated its regional facilities plans as often as its policies require, the State has less assurance that it is making best use of its office space. In our previous audit, we found that General Services did not conduct regional studies of office space occupied by state agencies, nor did it prepare plans to accommodate the State's office space needs as often as General Services' policies require. Thus, we concluded that General Services could not ensure that it was meeting the requirements of an executive order requiring it to consolidate office space where feasible. We therefore recommended that General Services perform regional office space studies as outlined in its policies.

In its one-year response, General Services stated that its goal is to perform regional plans within periods established in its internal guidelines. General Services instituted policies to prepare plans for each of the State's 12 regions on a five-year rotating schedule and to update annually the plans for the State's four major metropolitan regions. However, upon reviewing its comprehensive plans, we learned that General Services had completed comprehensive plans for only two of the State's 12 regions during the five-year span from 2003 to 2008. In addition, General Services has not updated its metropolitan-area plans annually. Finally, General Services has not completed any updates or comprehensive regional plans since July 2006.

General Services had completed comprehensive regional plans of the State's office space needs for only two of the State's 12 regions during a five-year span from 2003 to 2008.

The branch chief indicated that General Services has not prepared any updates or comprehensive regional plans in the last few years because it is in the process of changing the structure of these reports. The branch chief explained that in 2005 General Services' Real Estate Services Division (Real Estate Services) contracted with a consultant to evaluate its process of managing the State's properties. In its evaluation, the consultant recommended that Real Estate Services produce plans that focus more on the cost of office space per employee rather than on particular projects. Real Estate Services plans to combine the consultant's recommendations with aspects of its existing regional plans to create newly revised regional plans. The branch chief believes that the new plans, which

Real Estate Services hopes to begin releasing in fall 2009, will contain more specific data and will be easier to update than past regional plans.

General Services Does Not Update Its Database of Surplus Properties Continually Because Its Current Volume of Surplus Properties Is Low

Although our 2001 report recommended that General Services continually update its database of properties so that the State can more easily identify and manage surplus property, General Services asserts that it does not regularly update its database with surplus property information because the volume of surplus properties it manages is low. The database, called the Statewide Property Inventory system (inventory system), is designed to track all state properties, not just surplus real estate. State law describes the intent of the Legislature in creating the inventory system as a means "to improve the State's management of its real property holdings by delegating to General Services the responsibility for maintaining a central inventory of the State's real property holdings." In our 2001 audit report, we offered multiple recommendations to General Services regarding the inventory system. These recommendations, and descriptions of General Services' subsequent actions, appear in the Appendix. One recommendation involved General Services' updating its surplus property database monthly so that it could be used to assist in monitoring the department's progress in selling surplus property or enhancing its use. General Services explained that it has discontinued the use of what was formerly known as the "surplus property database." Instead, General Services has modified the inventory system to include information about surplus properties. Consequently, in our review, we determined whether General Services is updating the surplus property information in its inventory system on a monthly basis.

The branch chief stated that the branch does not use the inventory system as a surplus property tracking tool and that, other than assigning identification numbers and flagging the properties as surplus, the inventory system has a limited role in the surplus property program. The inventory system's primary purpose is to track the State's properties, and its surplus property records are quite limited. Specifically, once the Legislature declares a property as surplus, General Services updates the inventory system's records to reflect the property's surplus status. The department may not update the property's record again until disposal of the surplus property occurs.

General Services has discontinued the use of the "surplus property database" and now includes information about surplus properties in its Statewide Property Inventory system that tracks state properties. However, the inventory system has a limited role in the surplus property program.

General Services would eventually like to use the inventory system as a reporting tool, but the current low volume of surplus properties makes doing so inefficient right now.

One reason that General Services does not keep the inventory system current is that the department does not use information from the inventory system for legislative reporting purposes. The branch chief stated that the annual surplus property report contains information on property sales, disposition status, cancellations of surplus status, and other detailed information that the inventory system's records do not capture. Instead, Surplus Sales uses individual property files to produce its annual surplus property report for the Legislature. According to the branch chief, the inventory system was not designed or intended to be a reporting tool for surplus property. General Services stated that it would eventually like to use the inventory system as a reporting tool, but its current low volume of surplus properties makes doing so inefficient right now. Based on this low volume, which was caused by the CEQA-related delays discussed earlier, we believe that General Services' perspective on this matter is reasonable.

Caltrans Has Implemented Many of the Bureau's Previous Recommendations, but It Could Still Improve the Accuracy of Its Database

Caltrans has implemented several of the major recommendations outlined in our 2001 audit report, such as expediting the disposal of surplus property and improving its annual review of real property. However, Caltrans' database of properties continues to suffer from inaccurate data that could undermine the department's efforts to comply with the bureau's previous recommendations.

By Holding District Directors Accountable for Their Surplus Property, Caltrans Has Sold Numerous Parcels of Excess Land

Caltrans has increased its surplus property disposals by holding its district directors accountable for disposing of specific amounts of excess real estate. In contrast, according to the findings in our January 2001 report, Caltrans' management's lack of commitment led some Caltrans' districts to neglect adequately reviewing their properties. In our earlier report, we recommended that Caltrans develop methods to ensure that it completes all aspects of highway projects, including the prompt disposal of surplus property. Because it has competing priorities, we also recommended that Caltrans consider alternatives, such as reassigning staff, hiring temporary staff or contractors, or seeking additional resources to perform some of the activities needed to identify and prepare surplus property for disposal.

In a June 2008 status report, Caltrans said that it had entered into performance agreements with each district director to ensure timely project delivery and prompt disposal of excess land. These agreements established the goal that by December 31, 2008,⁴ the district directors would dispose of 1,140 parcels, which was the number of excess parcels ready for disposal in 2006. To accomplish this goal, the performance agreements—the first of which were signed in January 2007—set a specific number of excess parcels that were to be disposed of by each district in upcoming quarters. Although these agreements do not specify penalties when district directors do not fulfill their excess land disposal goals, Caltrans' director stated that district directors will be held responsible for failures to fulfill these goals and will be recognized or rewarded for meeting them.

Caltrans regularly monitors success in achieving performance agreement goals by requiring each district director to report to the Division of Right-of-Way and Land Surveys (right-of-way division) the completion of five key milestones in the disposal process (see text box) as well as any delays that will cause the district to miss meeting a planned completion date for any of the steps. When the right-of-way division is notified of a delay, it records in a tracking spreadsheet the reason for the delay and any updates associated with the property. Once the five steps shown in the text box are complete, the date that the deed was stamped is recorded as the official disposal date.

Caltrans has made progress in disposing of its surplus property by establishing the goals, performance agreements, and reporting mechanisms previously described. As of June 2008 Caltrans reported that it has disposed of 835 excess parcels, 73 percent of its target. In fiscal years 2006–07 and 2007–08, the property that Caltrans sold resulted in approximately \$277 million of revenue for the State.⁵ These parcels sold for approximately 114 percent of their market value, which was determined by Caltrans' appraisal staff. Using data provided by Caltrans, we totaled the number of parcels sold by fiscal year as well as the total market value and sales price of those parcels. As Table 2 on the following page shows, Caltrans reached its highest number in parcels sold in fiscal year 2007–08.

Key Milestones in Caltrans' Excess Land Disposal Process

- Caltrans' environmental unit clears the parcel for disposal.
- Maps and deeds are delivered.
- A Caltrans appraiser values the parcel.
- The California Transportation Commission, which is responsible for the programming and allocating of funds for construction and improvements, approves the parcel for disposal.
- The Caltrans district records the director's deed, which shows the date that Caltrans disposed of the parcel.

Source: Caltrans' excess lands disposal contract reports.

⁴ Caltrans reports that it sold 1,150 excess parcels of property as of December 31, 2008. We did not audit this number, as we present July 2008 data that we reviewed later in this section.

⁵ This number approximates the combined totals for fiscal years 2006–07 and 2007–08, which appears in Table 2. However, because Caltrans provided the data for Table 2 in July 2008, the combined total of 844 parcels is slightly higher than the 835 parcels it reported in June.

This would indicate that Caltrans' recent surplus property reforms have reenergized efforts that had been in decline—as shown by the significant decrease in properties sold in fiscal year 2005–06.

Table 2
Surplus Parcels Sold by Caltrans and the Corresponding Revenue Generated by Fiscal Year

FISCAL YEAR	NUMBER OF PARCELS SOLD	TOTAL MARKET VALUE	TOTAL SALES PRICE
2001–02	448	\$41,533,357	\$41,629,697
2002–03	450	86,309,184	89,333,778
2003–04	442	52,212,395	54,344,643
2004–05	391	92,771,147	97,836,816
2005–06	260	32,370,209	34,385,468
2006–07	368	99,265,766	113,642,463
2007–08	476	144,112,375	162,894,339
Totals	2,837	\$548,574,433	\$594,067,204

Source: Caltrans' Excess Lands Management System database, July 2008.

As part of our analysis, we also examined the number of parcels that were available for immediate sale and verified whether Caltrans made an effort to dispose of these within a year, as required by state law. Our analysis revealed that as of July 2008, 56 of the 300 parcels available for immediate sale have been ready for sale for longer than a year. Caltrans explained that if those parcels have pending offers, the one-year statutory deadline is extended. Nevertheless, 37 of the parcels that were available for immediate sale for longer than a year had no record of receiving an offer. Although Caltrans has increased the number of parcels that it has sold in recent years, it can still make improvements to ensure that it is trying to sell or exchange its surplus property within one year to the greatest extent possible.

Caltrans Has Improved Its Annual Reviews of Property Holdings

Caltrans has administered its Real Property Retention Reviews (retention reviews) more effectively than before by assigning its district directors responsibility for these reviews and by tracking the results of this reporting. This is in contrast to our finding in the 2001 audit report that Caltrans did not perform adequate reviews of its property holdings. We previously reported that although Caltrans had developed procedures that are generally adequate for reviewing its properties, a lack of commitment from

management led to the failure of district offices in following those procedures consistently, resulting in some offices neglecting to perform adequate reviews of their property holdings.

To ensure that it reviewed its real property holdings and adequately identified surplus properties, we recommended that Caltrans' management improve its support for the retention reviews conducted by its districts. In addition, our 2001 audit report recommended that Caltrans improve the retention reviews by making certain that the various units at district offices participate in and work together to effectively administer the annual reviews. We also recommended that Caltrans revise the retention review guidelines so that they include specific criteria for districts to evaluate the buildings and facilities listed in its Asset Management Inventory and procedures for ensuring that the ongoing monitoring of excess property withheld from disposal is sufficient and appropriate.

Caltrans stated in a June 2008 status report provided to us that it approved an April 2004 directive that separates the roles and responsibilities associated with property portfolio management (inventories, retention review, and disposal) from those of creating and maintaining a long-range facility planning framework. Each district is, therefore, required to do the following distinct tasks:

- Maintain accurate information in its property database.
- Identify short-, intermediate-, and long-range property needs using various system-planning documents.

Through its retention reviews, Caltrans intends to conduct annually a comprehensive review of its real estate portfolio. The retention review identifies property no longer needed for delivery of Caltrans' projects or programs. The retention review is a district-directed activity undertaken by retention review committees, which identify property in excess of transportation requirements and order appropriate disposition. The results of these reviews are supposed to be sent to Caltrans' headquarters and then are combined into a summary-level report. However, in the years following our audit report in 2001, Caltrans districts' participation in the retention review process was inconsistent, and Caltrans did not produce a retention review report until 2004. A senior right-of-way agent (senior agent) within Caltrans' right-of-way division stated that an organizational change—moving Caltrans' asset management function to the right-of-way division—led to the publication of the 2004 report and began a transition to a "reinvigorated" retention review process. The senior agent explained that changes in the review process included reducing the time between reviews from 16 months to six months, assigning property inventory management responsibilities to district directors, and creating performance agreements for each

Caltrans has addressed several of our 2001 recommendations by regularly issuing retention review reports, obtaining more timely reports from the districts, and including additional language in its retention review guidelines.

district director. The senior agent added that because the 2004 review took nearly 16 months to complete, Caltrans did not produce a retention review report in 2005. In 2006 Caltrans published its first retention review report under its new procedures, and it subsequently published reports in 2007 and 2008.

Caltrans believes that it has successfully obtained its districts' commitment to the retention review process by motivating the district directors through the performance agreements described earlier. We verified that Caltrans has issued a retention review report every year since the implementation of the agreements, and it has seen improvement in the timeliness of the reporting from the districts. Specifically, for Caltrans' 2004 retention review report, which it issued before the implementation of the agreements, only three of its 12 districts submitted their reports by a July 30 deadline. In contrast, for Caltrans' 2007 retention review report, we found that all 12 districts submitted their reports by July 30.

To address our 2001 recommendations, Caltrans included additional language in its retention review guidelines. Specifically, Caltrans added language to indicate that each district must ensure that buildings held as "in use" are consistent with the district's facility master plans and transportation system development program. Caltrans also added to its retention review guidelines a section that describes how the retention review committee should work with the responsible unit to achieve objectives related to excess properties withheld from disposal.

Particular Fields Within Caltrans' Surplus Property Database Are Not Sufficiently Reliable

Despite a mandate by the director to improve the accuracy of its systems, Caltrans' data are not sufficiently reliable in some areas. Specifically, we found that Caltrans' surplus property database is not sufficiently reliable for determining a parcel's size or the length of time it has been identified as excess. In our January 2001 report, we found that the Excess Lands Management Systems database (ELMS), which serves as Caltrans' inventory of surplus properties, did not list all existing surplus properties and that it overstated the number of properties ready for sale. Consequently, the database did not provide sufficient information to aid Caltrans' districts in managing their properties. To make certain it has reliable information available to manage its properties, we recommended that Caltrans take the necessary steps to correct the information in its real property databases. In addition, to ensure that Caltrans properly accounts for and disposes of its surplus property as soon as possible, we recommended that its staff promptly include and correctly categorize in ELMS all surplus property.

In a 2008 status report provided to us, Caltrans admitted that its data systems still contain some errors but reported that it has made strides toward improving the information management of its data systems, including ELMS. Caltrans stated that it now uses an Oracle software product to access ELMS and review it for anomalies. Caltrans also provided us with a November 2006 memo to its district directors stating that Caltrans' director had mandated that department staff take steps to ensure the accuracy of ELMS and another one of Caltrans' databases. The director then requested and obtained certifications from each district director stating that data in both systems were current and accurate.

Although our 2001 report looked at Caltrans' Asset Management Inventory system, Integrated Right-of-Way System, and Right-of-Way Property Management System, for this follow-up report we chose to focus on ELMS because it is the system directly tied to the disposal of surplus properties. Because we were unable to obtain from Caltrans a data file directly from ELMS, we relied upon data that Caltrans gave us after extracting it using Oracle software. Although the Oracle-generated reports display all data fields, they will occasionally omit data elements if the ELMS record has an improperly formatted entry. Consequently, more than 4,197 records (39 percent) out of 10,768 total records showed no date in the field that should have listed when Caltrans identified a property as excess.

The chief of the Office of Real Property Services explained that this date is not recorded every time because it has no impact on the sale of property. However, this information is necessary for determining the length of time that a parcel has been identified as excess so that Caltrans' efficiency in disposing of surplus property can be measured. It was also one of the fields that the November 2006 directive called out as needing "special attention" to ensure that it is being populated. Due to Oracle's filtering process and Caltrans' omissions, it is difficult to ascertain whether this field is truly empty or whether an empty field has resulted from the extraction process that occurs when Oracle produces a report. These empty fields lessen our assurance that the data produced by the extraction process are complete. However, because Caltrans could not provide us with data directly from ELMS, we performed our data analysis using the Oracle-extracted data provided to us by Caltrans.

In addition to reviewing the completeness of the data in ELMS, we also randomly selected 29 surplus properties from the data and tested the accuracy of fields related to each property's size, location, date the property was identified as excess, disposal date, market value, and sale price. If we found a discrepancy between the hard-copy files and the data provided to us, we viewed an ELMS

Because more than 39 percent of the records in Caltrans' database for its excess lands management did not have a date in the field indicating when a property was identified as excess, there is no way to determine Caltrans' efficiency in disposing of surplus property.

screen print to make sure the error was in ELMS and not just in the Oracle-extracted data. This testing revealed that ELMS contained numerous errors concerning the size of the surplus parcels. In one case, the recorded acreage was three times larger than the actual acreage. This finding was consistent with the results of our initial data reliability interviews in which the chief of the Office of Real Property Services stated that the acreage field in ELMS is sometimes inaccurate.

In its 2007–08 session, the Legislature enacted Assembly Bill 957 (Chapter 59, Statutes of 2007), which requires Caltrans to report to General Services its property holdings, including excess lands, on July 1 of each year. Among the information that Caltrans must report is the location and size of the parcel and the date of acquisition. The accuracy of such information is relevant, as size and location of a parcel may be the only indicators of potential value if an appraisal has not occurred recently. Without accurate data on the parcel size of surplus property, Caltrans is unable to deliver accurate yearly reports to General Services.

According to the chief of Caltrans' Office of Real Property Services, Caltrans relies on its districts to develop their own procedures for verifying that they enter accurate data into ELMS. In 2006 Caltrans' headquarters had each district certify the integrity of its data. By doing so, Caltrans' headquarters has delegated the responsibility for maintaining accurate data to its districts. However, based on the results of our testing and Caltrans' own concerns, it is clear that Caltrans' headquarters will need to continue to stress the importance of data integrity before Caltrans can fully rely upon the accuracy of its property data.

We conducted this review under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specified in the letter report.

Respectfully submitted,



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Appendix

ACTIONS TAKEN IN RESPONSE TO RECOMMENDATIONS FROM THE BUREAU OF STATE AUDITS' 2001 REPORT

In Table A we outline the recommendations from the Bureau of State Audits' report issued in January 2001 titled *The State's Real Property Assets: The State Has Identified Surplus Real Property, but Some of Its Property Management Processes Are Ineffective* (2000-117). We also summarize the actions that the Legislature and state agencies have taken since we issued the original report and whether these actions adequately addressed our recommendations. In some instances, we recommended that the Legislature and the Department of General Services (General Services) *consider* various potential improvements. As discussed in our current report, evidence shows that the Legislature considered our legislative recommendations. Moreover, according to General Services' responses to the 2001 report, it apparently considered the recommendations that we addressed. However, to offer a measure of which aspects of the State's surplus property management have improved since our 2001 audit report, the table's ratings reflect the degree to which the appropriate entities implemented proposed improvements and not the degree to which the Legislature or the agencies considered the recommendations.

Table A
Analysis of Agency Responses to the Bureau of State Audits'
2001 Recommendations

RECOMMENDATIONS FROM THE 2001 AUDIT REPORT *	ACTIONS TAKEN	OVERALL PROGRESS
Oversight and Incentives		
The Legislature should consider empowering an agency with the responsibilities of establishing property-retention standards, monitoring compliance with standards, and scrutinizing property-retention decisions.	Legislation proposed, but failed to pass.	✗
If it chooses not to act on the recommendation above, the Legislature could make an agency responsible for conducting periodic reviews of state-owned real estate (property) and making recommendations about the property's retention or disposal.	Legislation proposed, but failed to pass.	✗
If it does not establish an oversight agency, the Legislature should consider less frequent but more comprehensive reviews.	None.	✗
The Legislature should consider providing incentives to state agencies to identify excess or underused property. Such incentives could include allowing agencies to retain some or all of the proceeds of the disposition of surplus properties.	Legislation proposed, but failed to pass.	✗
Staffing at the Department of General Services (General Services)		
To help dispose of the State's surplus real estate in a timely manner, General Services should fill the vacant positions in its unit that are responsible for selling, leasing, or exchanging surplus properties.	The unit was fully staffed as of October 2008. Delays related to environmental clearances have significantly reduced the number of property sales conducted by this unit.	✓

continued on next page ...

RECOMMENDATIONS FROM THE 2001 AUDIT REPORT *	ACTIONS TAKEN	OVERALL PROGRESS
General Services' Statewide Property Inventory (inventory system)		
General Services should take the necessary actions to ensure that the inventory system contains the information it requires to serve as the statewide property management tool intended by legislation. To accomplish this task, General Services should consider the following steps:		
<ul style="list-style-type: none"> Work with state agencies to identify the property characteristics the inventory system must contain to serve as an effective property management tool. 	General Services requests that agencies suggest additional property characteristics for the inventory system in its annual data verification memo.	✓
<ul style="list-style-type: none"> Change operation of the inventory system to promote efficiency. For example, agencies could be given the ability to enter information into the system and to verify the accuracy of the inventory through real-time access to the inventory's data. 	The inventory system is publicly available through General Services' Web site; however, agencies are still unable to enter information into the system. Although this remains a goal of General Services, it stated that it does not currently have funding to complete this system upgrade.	▲
<ul style="list-style-type: none"> Cooperate with land-owning state agencies to provide standard property identification elements that will facilitate the reconciliation of the inventory systems maintained by the agencies. 	General Services sends a memo to agencies every year with instructions on how to cross-reference their property identifications with those of the inventory system.	✓
<ul style="list-style-type: none"> Seek to change the funding mechanism for the inventory to eliminate the current disincentive for state agencies to provide information. 	General Services still uses a charge-per-record method to fund the inventory system.	✗
General Services should include in the inventory all unused or underused property assigned to its Asset Enhancement and Surplus Sales Unit and should update this information monthly to assist in monitoring its progress in selling surplus property or enhancing its use.	General Services could not provide us with the information necessary to demonstrate that its inventory contains all properties declared surplus by the Legislature. In addition, General Services records in its inventory when a property is deemed surplus but may not update the inventory again until the department disposes of the property.	✗
General Services' Legislative Reports and Office Space Studies		
To improve the value of legislative reports regarding its surplus property inventory, General Services should submit these reports promptly and should consider including additional detailed information on the status of surplus property. In these reports, General Services should also describe the weaknesses in the State's property systems and include suggestions to improve the State's ability to identify and dispose of surplus property.	General Services' annual report to the Legislature regarding surplus properties includes more detailed information than it did prior to our original audit, but these reports have not been any more timely. General Services stated that it does not believe that this report is the appropriate forum for addressing system weaknesses or suggestions for improvement.	▲
General Services should perform planned regional office space studies to ensure that it provides an adequate strategy for consolidating the State's office space.	General Services has not completed these studies according to the intervals outlined in its internal guidelines.	✗
Department of Transportation's (Caltrans) Disposal of Surplus Property		
Caltrans should take the necessary steps to make certain that it properly accounts for and disposes of surplus property as rapidly as possible. These steps should include the following:		
<ul style="list-style-type: none"> Making sure that Caltrans' staff promptly includes and correctly categorizes in its Excess Lands Management System database all surplus property. 	Caltrans' management appears to be placing a greater emphasis on the data integrity of its systems; however, we found accuracy errors in the database.	▲
<ul style="list-style-type: none"> Developing methods to ensure that it completes all aspects of highway projects, including the prompt disposal of surplus property. 	The director has entered into performance contracts with each district director to ensure timely project delivery and prompt disposal of excess land.	✓
<ul style="list-style-type: none"> Considering alternatives such as reassigning staff, hiring temporary staff or contractors, or seeking additional resources to perform some of the activities needed to identify and prepare surplus property for disposal. 	Caltrans improved its identification and preparation of surplus property for disposal and reinvigorated its efforts using existing staff.	✓

RECOMMENDATIONS FROM THE 2001 AUDIT REPORT *	ACTIONS TAKEN	OVERALL PROGRESS
Caltrans' Annual Reviews of Property Retention		
To ensure that it adequately reviews its real property holdings and identifies surplus properties, Caltrans' management should improve its support for the retention reviews conducted by its districts. Caltrans should seek to improve the reviews in the following ways:		
<ul style="list-style-type: none"> Make certain that the various units at district offices follow guidelines and work together to administer effectively the annual Real Property Retention Reviews (retention reviews). In addition, ensure that district offices provide year-round coordination of the management of surplus property and to improve the quality of annual retention review efforts. 	Caltrans has renewed district commitments to the retention reviews by entering into performance agreements with the district directors, which establish quarterly goals for the number of parcels to be disposed of. Fulfillment of these goals requires effort and coordination throughout the year.	✓
<ul style="list-style-type: none"> Revise the retention review guidelines so that they include the following elements: <ul style="list-style-type: none"> Specific criteria for districts to evaluate the buildings and facilities listed in the Asset Management Inventory. 	Caltrans added language to indicate that districts must ensure that buildings held as "in use" are consistent with the district's facility master plans and transportation system development program.	✓
<ul style="list-style-type: none"> Procedures for ensuring that the ongoing monitoring of excess property withheld from disposal is sufficient and appropriate. 	Parcels that are identified as excess in the retention reviews, but are withheld from disposal, must have their holds renewed annually.	✓
<ul style="list-style-type: none"> Steps for reviewing noninventory property to ensure that the department needs the property for future highway projects. 	Caltrans had originally implemented our recommendation, but removed these steps in 2005, citing that noninventory parcels only accounted for 2 percent of its total parcels.	▲
Until existing reporting requirements are rescinded, Caltrans should take the necessary steps to ensure that it provides accurate, timely annual reports on the status of its property holdings.	Although Caltrans submitted reports from 2004 through 2007, it did not submit a report to General Services in 2008 due to concerns regarding the accuracy of its property database.	▲
Caltrans' Database		
To make certain it has reliable information available to manage its property holdings, Caltrans should take the necessary steps to correct the information in its property databases.	Although Caltrans has made efforts to improve the accuracy of its database, it still contains incomplete and inaccurate data.	▲

Sources: *The State's Real Property Assets: The State Has Identified Surplus Real Property, but Some of Its Property Management Processes are Ineffective*, Report 2000-117, January 2001; Bureau of State Audits' analysis.

* We selected recommendations that were specific and that related to the scope of our audit.

✓ = This recommendation has been adequately addressed.

▲ = Improvements occurred in this area, but not all aspects of this recommendation have been addressed.

✕ = Although responsible entities may have considered this recommendation, it was not implemented.

cc: Members of the Legislature
Office of the Lieutenant Governor
Milton Marks Commission on California State
Government Organization and Economy
Department of Finance
Attorney General
State Controller
State Treasurer
Legislative Analyst
Senate Office of Research
California Research Bureau
Capitol Press